An

Thesis Report

on

The Importance of the VAT compliance and bonds warehouse practice in Bangladesh in RMG Sector

Submitted by:

Name: Fahim Khan Chowdhury

ID: 2101022010

Program:

MBA (Major in Accounting)

Semester: Spring

Submitted to:

Department of Business Administration

Submitted for the partial fulfillment of the degree of

Master of Business Administration



Sonargaon University (SU)

Dhaka- 1215

Date of Submission: January 19, 2022

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Supervised By:

Farjana Yeasmin Chowdhury

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Letter of Transmittal

January 19, 2022
FarjanaYeasmin Chowdhury
Lecturer
Department of Business Administration
Sonargaon University (SU)

Subject: Submission of Thesis report

Dear Madam,
With humble honor and respect, I am submitting my internship report on "**The Importance of the VAT compliance and bonds warehouse practice in Bangladesh in RMG Sector**". As per partial accomplishment of the requirements for the MBA degree, I have completed my thesis on "Alliance Knit Composite Ltd" As per partial accomplishment of the requirements for the MBA degree, this thesis has been carried out under the supervision of you.

This report is an integral part of our academic courses in completion of the MBA program which has given me the opportunity to have an insight into the advantages of VAT. I hope this report reflects on the contemporary issues on the benefits of bond warehouses that are being practiced by organizations in our country.

In completing the report I tried my best to blend all my knowledge and imparted every available detail and also attempted to avoid unnecessary amplification of the report.
I humbly request you to accept this report for your kind evaluation.

Sincerely,

_____

Student's Name: Fahim Khan Chowdhury
ID: MBA2101022010
Department of Business Administration
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Certificate of Supervisor

This is to certify that the thesis paper "**The Importance of the VAT compliance and bonds warehouse practice in Bangladesh in RMG Sector**" has been prepared as a part of completion of the MBA program from Department of Business Administration, Sonargaon University (SU), carried out by Fahim Khan Chowdhury, bearing ID: MBA2101022010 under my supervision. The report or the information will not be used for any other purposes.

……

FarjanaYeasmin Chowdhury
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Student Declaration

I am Fahim Khan Chowdhury, a student of Master of Business Administration, ID: MBA2101022010 from Sonargaon University would like to solemnly declare here that this report on "**The Importance of the VAT compliance and bonds warehouse practice in Bangladesh in RMG sector**" has been authentically prepared by me. While preparing this report, I didn't breach any copyright act internationally. I am further declaring that I did not submit this report anywhere for awarding any degree, diploma or certificate.

Sincerely Yours

Fahim Khan Chowdhury
ID: MBA2101022010
Program: MBA
Major: Accounting
Semester: Spring

Letter of Authorization

This project report titled "**The Importance of the VAT compliance and bonds warehouse practice in Bangladesh in RMG sector**" is the bonafide work of **Fahim Khan Chowdhury**, who carried out the research under my supervision. Certified further that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

……

FarjanaYeasmin Chowdhury

Lecturer

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ACKNOWLEDGEMENT

I wish to extend my gratitude to all the people who helped me accomplish my report title, “The Importance of the VAT compliance and bonds warehouse practice in Bangladesh” at Alliance Knit Composite Ltd. At the very beginning, I want to thank my faculty advisor and internship supervisor in Sonargaon University, Farjana. Yeasmin Chowdhury, who has given me precious guidance from her busy schedule. I am very grateful for all her advice in order to make my report more effective.

Secondly, I am grateful to Mr.AbdulAlim, Deputy Manager in Accounts & Finance department for being my Thesis supervisor. He has shown me how to get things done easily and helped me a lot. I am thankful to Mr.Shib Shankar, Department Head of Alliance Knit and Composite Ltd for granting my thesis in his department. I want to express my sincere gratitude to Mr. Emran Hossain, Vat Tax department for his cordial cooperation and encouragement.

EXECUTIVE SUMMARY

The core objective of the Thesis is to fulfill the requirement of the MBA program as prescribed by the Sonargaon University. The thesis report prepared at the real world scenario as per Bangladesh practices in RMG sector as well as all the sector of like company, trading business and service industry also. The internship was completed with the objective of getting practical knowledge in the sector.

The responsibility I was assigned on this job period was to Executive of VAT and TAX Department. As an Executive, I realized that I was successful to gather a lot of significant learning experiences which would be helpful in my future career. The HR department of AKCL offered me ample space and opportunities, not only to learn but also to exhibit my skills as a VAT TAX Person. I could use my knowledge VAT and TAX of Accounts Department. I was actively involved in the department meetings where I shared my knowledge and views regarding the VAT and TAX compliance actually maintained.

I also attempted to gather more information on basic job functions of other departments to have better understanding of the relation between them and VAT and TAX department. It was commendable to see how wholeheartedly they welcomed, acknowledged and appreciated new ideas and knowledge. I have provided few recommendations based upon my understanding and knowledge.

I successfully completed all the assigned duties and handed them over to the senior supervisor at the end of the internship. I thoroughly enjoyed the challenges that came along every single day. I could also bring some minor improvisations during my internship which were able to leave their marks. These lessons that I have learned will be a valuable one for my future endeavors as well.

LIST OF ACRONYMS

BGMEA- Bangladesh Garments Manufacturers and Exporters Association.

BKMEA- Bangladesh Knitwear Manufacturers and Exporters Association

BIDS- Bangladesh Institute of Development Studies

EPZ- Export Processing Zone

GDP- Gross Domestic Product

ILO- International Labour Organization

MFA- Multi-fibre Arrangement

RMG- Ready Made Garments

VAT- Value Added Tax

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Chapter- One

Introduction

1.1 Introduction

Bangladesh, the southern Asian country has a population of approximately 164 million people. The economy of Bangladesh is significantly dependent on agriculture. But it's great news for the country that, garments sector (RMG) sector of Bangladesh has raised as the biggest earner of foreign currency. This sector creates about 4.2 million employment opportunities and contributes significantly to the GDP. Readymade garments (RMG) of Bangladesh is powered by young, urbanizing, workers, where most of them are women.

1.2 Background of the Study

Complying with its past heritage, Bangladesh has become a hub for the Readymade Garment (RMG) manufacturing industry and exports its products all over the world. During 17th and early 18th century, Bangladesh used to supply Muslin, a brand name of pre-colonial Bengal textile material, hand woven of uncommonly delicate handspun yarn, to Europe. In the 21st century, the label "Made in Bangladesh " on readymade apparels holds the second position in the world and first in Southeast Asia. The RMG industry is considered to be the backbone of the economy of Bangladesh. The contribution of this very sector is enviable in terms of export earning, employment generation and women empowerment. Bangladesh, after its independence, did not experience the dramatic rate of growth in any other sectors but in RMG. This single sector has created many other sub sectors through direct or indirect business as backward linkage. The ready-made garment sector is called the lifeline of the country's economy and a catalyst for women empowerment. It is the highest contributor to the national export of Bangladesh. The export-oriented RMG industry has some distinctive features, which differentiate the export oriented RMG sector from other businesses. Social compliances, supply chain and lead-time are among the most important features of this business. All these three features are interrelated and interdependent. Among these features, Social Compliance is to be addressed first and foremost. Whatever the wage level or lead-time (the period from order confirmation to shipment) is non-existence of compliance means non-existence of business. The concept of social compliance in Bangladesh RMG did not evolve within the regulatory framework of Bangladesh; rather buyers' initial passive role in compliance came as a compulsion when the sector violated labor practices grossly. Child labour, wage discrimination along with irregularity and underpayment, loss of many workers life in fire and building collapses drew the attention of national and international media and has been criticized by human rights organizations from home and abroad. A single sector, RMG, has brought fortune to a number of entrepreneurs, generated employment to millions of workers, especially to the landless poor and specifically for the females who had no other alternative. By the blessing of the RMG sector, 3 numbers of rich families/groups have also increased remarkably. Though the sector has created employment; still it is blamed for creating poor and unsafe working condition and in maintaining a huge gap between employers and employees. However, due to the dominance of push factor instead of pull factor.

1.3 Objectives of the Study

The broader objective of the study is mainly to examine the role of the government on social compliance in the RMG manufacturing industry of Bangladesh as part of the global supply chain. More specifically, the study has focused on the core issues of social compliance, its governance system, the problems with implementing social issues in the RMG factories and impact of noncompliance on business. The specific objectives of the study are given below:
a) To explain the legal and organizational frameworks to implement social compliance in the RMG factories
b) To analyze the growth and development of RMG industry in Bangladesh along

1.4 Limitations of the Study

There are 5615 member factories in different areas of the country under 2 apex bodies, Bangladesh Garments Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA). Apart from those listed factories there are around 800 non-member factories, which are known as subcontract factories. Though it is difficult to identify the total employment in both member and non-member factories, it is estimated that around 4.6 million workers are directly employed in this sector. It is not possible to cover a vast sector in a single study. The current research work has focused on one of the important RMG manufacturing hubs - Ashulia Industrial Area. More than 300 factories, within three kilometers distance between Ashulia bridge and Baipal, accounts for 20 percent of the total garment exports of Bangladesh (Textile Today, 2012). There are factories in different sizes and types, compliant and non-compliant both. Most of the workers' unrest the sector has so far experienced got initiated from Ashulia.

These are the reasons why the focus of the study was centered on the Ashulia industrial area. On the other hand, Social compliance in the RMG sector has multidimensional aspects related to labour and environment. All these issues cannot also be studied at a time. Considering the role of the factors in moulding and steering social compliance, the present study has incorporated the core labour standards set by International Labour Organization (ILO) along with government’s policy and governance system to implement those standards.

Chapter-Two

Profile of Alliance Knit Composite Ltd

2.1 Historical Background

Alliance knit composite Ltd. (AKCL) is one of the leading composite readymade garments manufacturers in Dhaka, Bangladesh & established in June 2007.AKCL's working area covers 2,28,477 sq. Ft. and has more than 1500 skilled and Experience workers.AKCL earns expertise in producing various kinds of garment products such as Men's Ladies' & kids all types of knit with under garments. The materials we used vary from fabrics of S/J fabrics, Pique, Lacoste, Thermal, Interlock, Fleece, 1×1 Rib, 2×2 Rib, Lycra on cellulose, regenerated cellulose (cottons, viscose, linen, rayon, modal etc.) fiber and also manmade fiber (polyester, polyamide etc.) And various kinds of garment printing & finishing. We can tailor-make dedicated products according to our client's requirements such as silicon wash, enzyme wash & normal wash. We are producing high quality ready to wear apparel to the super softness and touch is also one of our success stories to establish our goodwill. AKCL exports most of its products to the European market and we work towards high-quality products and good workmanship with perfectly fitted garments at a very reasonable and competitive price. In the future we believe that what would be of the utmost importance will be to strengthen the relationship between ourselves and customers, to understand their needs and to provide them with the best solution to meet their special needs.

2.2 Corporate Profile at a Glance

The Company is situated at Zerabo, Ashulia, Savar.Dhaka. AKCL's working area covers 2,28,477 sq. Ft. and has more than 1500 skilled and Experience workers.AKCL earns expertise in producing various kinds of garment products such as Men's Ladies' & kids all types of knit with under garments. The materials we used vary from fabrics of S/J fabrics, Pique, Lacoste, Thermal, Interlock, Fleece, 1×1 Rib, 2×2 Rib, Lycra on cellulose, regenerated cellulose (cottons, viscose, linen, rayon, modal etc.) fiber and also manmade fiber (polyester, polyamide etc.) And various kinds of garment printing & finishing. We can tailor-make dedicated products according to our client's requirements such as silicon wash, enzyme wash & normal wash. We are producing high quality ready to wear apparel to the super softness and touch is also one of our success stories to establish our goodwill.

2.3 Vision of AKCL

- Following their footsteps, other prudent and hardworking entrepreneurs started RMG factories in the country. Since then, the Bangladeshi garment industry did not need to look behind. Despite many difficulties faced by the sector over the past years, it has carved a niche in the world market and kept continuing to show robust performance. To establish the AKCL as the Number one Knitting and Dyeing company in BD. To operate as one of the best apparel sources in the global market;
- To satisfy the valued customers, meeting their expectation by providing quality products & services on time, and offering them the best value in terms of quality, price, environmental and other ethical practices;
- To meet compliance standards to assure an ideal work environment and obtain optimum level of productivity;
- To maintain the technology-led command in the industry;
- To promote development ensuring unprejudiced and equal opportunities for all;

- To continue growing nurturing competence in professionalism seeking win-win terms; and
- To go green as much as possible.

2.4 Mission of AKCL

- To develop the economy of the country.
- To protect and promote the interests of the industry.
- To ensure all legitimate rights and privileges of the garment Workers.

2.5 Strategies of AKCL

The ready-made garments (RMG) industry in Bangladesh has experienced an unprecedented growth over the last two decades. RMG alone earned about 78% of the yearly foreign exchange earnings of the country. About 4.0 million people are employed in the garment sector. The growth rate of RMG export was over 20% over the last two decades. Out of 4.0 million manpower employed in factories, 3.20 million are women, which is almost 80% of total manpower (Source form BGMEA). This sector also promotes the development of our other major sections of the economy, such as textiles, banking, transportation, insurance etc. For this reason, they're also lots of changes in women's social status and their firm's particular in household decision making of the contribution of their garment industry. Day by day, the garment industry has become the major source of power in our economy.

1. Buying House:
Most of the garment export orders are executed by the different garments buying houses in our country. The garment buying house works as middlemen between foreign buyers and our garments manufacturer. Buying house work as a buyer to the manufacturer and on the other side work as a manufacturer to the buyer.

2. Direct Contact:
There are few large garment manufacturing companies that have many garment factories of their own administration and entrepreneurship. They also have a very skillful marketing department, travels abroad with sample garments, talks directly with the buyer and gathers export orders from the buyer.

3. Indirect Contact:

Sometimes a strong brand or corporate image can put the companies in a negotiating contract with the buyer. There are few manufactures as well as buying houses that communicate with buyers via internet, e-mail, fax, telephone, visual merchandising, press, TV, radio, cinema, poster, etc., media and confirms an export order directly.

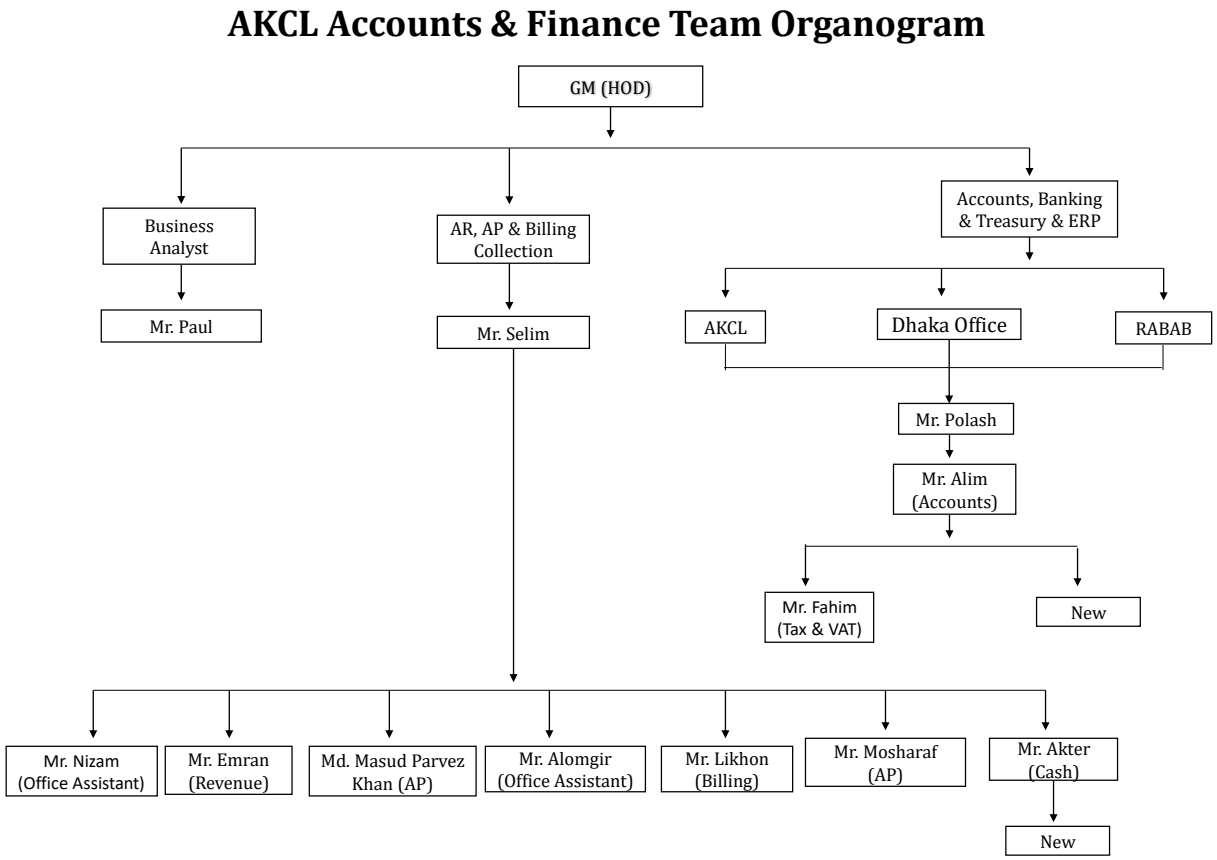
2.6 Objectives of AKCL

Various research reports and academic papers have been written using primary surveys conducted on the RMG sector in Bangladesh. Since the early 1990s, various organizations have conducted these surveys with different objectives. Data obtained from these primary surveys could be a good source of information. Unfortunately, most of these databases are not available publicly. In 1990 and 1991, the Bangladesh Institute of Development Studies (BIDS) conducted a survey on the economic and social condition of RMG workers at the individual level in RMG enterprises. In 2006, Centre for Policy Dialogue (CPD) surveyed over 200 RMG enterprises on the changes and challenges for the RMG sector of Bangladesh in view of the post-Multi-Fibre Arrangement (MFA) period.

2.7 Service Areas

The main business of the company is to dyeing, Knitting and finishing of the company. There are huge revenue earned from dyeing and also the knitting unit also. There are very few company have the capacity to dyeing more than 50 ton dyeing per day.

2.8 Organogram of AKCL



Chapter Three

Theoretical Background

3. Theoretical Background

VAT wing of NBR on November 29 issued a statutory regulatory order exempting export-oriented apparel makers from payment of VAT on expenditure for workers welfare and entertainment, laboratory test fee, IT-enabled services, and rent-a-car facility.

The VAT was applicable ranging from 5 percent to 15 percent for the services and RMG sector availed the benefit just a month back of national election scheduled to be held on December 30.

Officials said that NBR offered the benefit to the sector following demand from Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA).
In fact, the two associations had long been demanding for VAT exemption for all types of services citing record-keeping complexities as the sector enjoys VAT exemption for most of the services.

Excluding the four new services, apparel makers since 2005 have been enjoying 100 percent VAT exemption for 13 types of services including supply of goods and services, security, transport contractors and port services, and partial exemption up to 80 percent for another three types of services including electricity, water, and natural gas bills.

Chapter-Four

Analysis and Findings

4.1 Frequency Analysis

From the above time series plot, we observe that throughout the study the time series data seems to be trending, suggesting perhaps that the mean and variance has been changing. That is, the RMG Export series is not a stationary pattern. Visually, the mean and variance do not remain constant from time to time, so we can say that the original Export data series is not stationary. Again, the second not the first difference of RMG Export data series shows more stable variance than the original series. That is, our difference order is 2 to make the RMG Export series as stationary.

4.2 Regression Analysis

This section establishes the effects of VAT on GDP and TTR applying in VAT, ln GDP and in TTR. Again, the share of VAT on the TR of the government applying in VAT and in TR. When estimating the study, then an autocorrelation problem is found in the series. For this, it follows the Dynamic Regression Model to remove the autocorrelation problem. By Dynamic Regression Model, it applied the first lag and removed the autocorrelation of the respective series. On the other hand, since the data of this study is time-series data, so it is considered the time trend during the regression analysis to avoid the spurious result.

4.3 Correlation Analysis

Having survived one disaster after another, the Readymade Garments (RMG) industry of Bangladesh progressed swiftly, becoming the second-largest exporter of textiles and clothing. Prior to remediation programs launched by Accord-Alliance in the aftermath of the Rana Plaza incident, RMG companies have not been as keen about social compliance as they are now. Therefore, this research seeks to investigate the correlation between social and export competitiveness. Sales data of fifty-two RMG companies over the last five years were collected and analyzed to determine the sales trend. The results of the analysis show there is an upward trend in the sales data. This means social compliance has not affected sales revenue. On the contrary, the results confirm what the literature states-social compliance attracts more export orders. A thorough literature review led to the development of a hypothesis stating social compliance and export competitiveness have a positive correlation. There are, however, other factors to consider when discussing export competitiveness such as lead time management, supply chain management, government's fiscal policies, trade pacts, port efficiencies, energy supplies, cotton imports, backward and forward linkages, and tariff and currency depreciation affect competitiveness of cotton exports. Shortening the lead time can boost export competitiveness of Bangladeshi textiles and clothing in the long run. Implementing supply chain management systems will help to optimize lead time and developing the local backward linkage industry will curb exporters' dependence on imported raw materials and thereby shorten lead time further. However, further research along with primary data will provide the accuracy and relevance required for a research of this scope.

4.4 Findings

- The VAT compliance of AKCL is very tough to maintain as a 4 years established company because there was shortage of man power
- The construction expenses is highly expensive as it is RMG sector disagree to comply the Vat Rules

- The company is unwilling to pay VAT as per prescribe by NBR
- The benefit of VAT payment within the deadline is tough to maintain
- Company might charge by high penalty for VAT avoidance
- There are VAT and SD act 2012 and compliance with the 6.1 ,6.2,6.6, 9.1 return for the update this books perfectly
- Bond has some regulation on import chemical, spare parts and dyeing.
- The main features of VAT in Bangladesh are as follows:
- VAT is imposed on goods and services at import stage, manufacturing, wholesale and retails levels;
- A uniform VAT rate of 15 percent is applicable for both goods and services;
- 15 percent VAT is applicable for all business or industrial units with an annual turnover of Taka 2 million and above;
- Turnover tax at the rate of 4 percent is leviable where annual turnover is less than Taka 2 million;
- VAT is applicable to all domestic products and services with some exemptions;
- VAT is payable at the time of supply of goods and services;
- Tax paid on inputs is creditable/adjustable against output tax;
- Export is exempt;
- Cottage industries (defined as a unit with an annual turnover of less than Taka 2 million and with a capital machinery valued up to Taka 3,00,000) are exempt from VAT;
- Tax returns are to be submitted on a monthly or quarterly or half yearly basis as notified by the Government.

Chapter Five

Conclusions & Recommendations

5.1 Conclusions

RMG Sector has emerged as the single most important contributor towards employment generation, income and foreign earning, and growth of Bangladeshi economy. However, different factors such as weak infrastructure, lack of energy and supportive regime, inefficient management, and lack of industrial integration have prevented the RMG sector from realizing its full potential. By managing these factors through collective efforts, Bangladesh economy may realize its development dream and enhance the standard of living and approach towards a middle-income economy

5.2 Recommendation

The RMG sector can be a catalyst to achieve the goal of becoming a middle income country within reasonable time and with this end following are the recommendations.

- Multi-modal transport facilities, sound infrastructure facilities including consistent supply of energy through public-private initiatives is to be set up.
- Sound initiatives in research, training and development to innovate new product ideas, increase the workers efficiency are to taken especially by the BGMEA
- The civil society and other socio-political stakeholders must take able initiatives to ensure a congenial political environment to reduce corruption and maintain a trade supportive environment.
- Investment friendly fiscal and monetary policy is to be geared up to reduce the burden of existing and potential investors.
- RMG owners must pay adequate attention to workers welfare, safety and health, and the buyers should help to increase the supply chain's efficiency through investment in backward industry

The present practices of social compliance are not effective to meet its core objective - “Promoting jobs, protecting people” the motto of ILO. The buyers are in the driving forces in the existing system. They prefer short term solutions, as long as their business is concerned, of the problems. The following recommendations can be proposed considering the drawbacks in the existing system for a sustainable solution.

i) **Formation of a Separate Ministry**: The RMG sector in Bangladesh is running by various authorities and alarmingly having no specific regulation from a single authority in this prospective sector. Here the government has dual responsibilities – maintaining growth to generate more employment and ensuring working environment. The major role of government in implementing social compliance would be to form a separate ministry that will be dedicated for the RMG sector only. Since the readymade garment industry, as a part of international supply chain, is different from the other industries present, it needs special care from the legal authority to have a sustainable growth by fulfilling its goals.

ii) **Formulation of a National Standard:** The buyers who, focus on profit maximization, are the driving forces in the existing system, not necessarily they

look for any permanent and long-term solutions for the problems. Considering the existing policies and setting priorities in socio-economic context of Bangladesh sector a “set of standard” derived from ILO conventions.

iii) **One Audit under a Common Checklist against a Unified Codes’ of Conduct:** The motto of buyers driven social compliance, is for their business guarantee where employees’ satisfaction is not within the purview of present practices of compliance. The numbers of compliant factories are mentionable but the essence of social compliance is not achieved yet especially on workers’ satisfaction. In absence of a common guideline under a single regulatory authority with appropriate logistics and human resources, the largest sector is being dominated by multiple authorities with multiple guidelines. To get rid of this situation an alternative approach has to be developed where all parties involved through its value chain would be benefited.

iv) A functional, with well-defined responsibility and delegated authority, management system has to be developed. With the inclusion of management system, local meritorious job applicants can replace foreign nationals in the name of experts who are dominating the sector at present. A large number of foreigners are working in Bangladesh RMG and its associated sectors like shipping lines, freight forwarding agents, garment inspection companies, buying offices etc. Most of the foreigners are from India, Sri Lanka, China, Pakistan, South Korea and Philippines, foreign nationals who are narrowing job opportunities for the locals. With proper initiatives like providing training government can retain more foreign currency and create employment opportunities for the talented locals. Owners of the companies should have a proper and functional HR system to sustain the business.

v) Bonded wearhouse facility if avail for the company is most benefitted for the RMG sector. The duty free product can easily import from the third world country.

vi) VAT is the important area where company if maintain it properly can get the benefitted properly with the subsidy from the government sector.

vii) The bonded warehouse facility is important to export-oriented industries, especially garment industries -- in reducing lead-time and keeping product prices competitive. The bonded warehouse license is given to import raw materials without any duty charges against a commitment of exporting the finished product

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